

# INSTRUCTIONS FOR THE PREPARATION OF ALABAMA DEPARTMENT OF REVENUE Corporation Income Tax Return

**2008**

## What's New For 2008?

**Electronic Filing Available.** The Alabama Department of Revenue began accepting the electronic filing of the Alabama Corporate Income Tax Returns, schedules, forms and correspondence for tax years 2006 and forward. Visit our Web site for additional information and links to software providers.

**FORM BIT-V.** Taxpayers with a business income tax payment of less than \$750 must complete Form BIT-V, Alabama Business Income Tax Voucher, to submit single business tax payments (**including automatic extension payments**) due on your 2008 return. See the "Which Form To Use" section of these instructions for additional information for Form BIT-V.

**FORM 20-E.** Form 20-E is no longer required and will not be accepted for the 2008 tax year and forward. An automatic extension of six months is granted to file the Alabama Corporation Income Tax Return, Forms 20C and 20C-C.

**FORM 2220AL.** Alabama Form 2220AL has been developed to allow corporations with relief from the underpaid estimated income tax provisions (See Section 40-18-80.1, **Code of Alabama 1975**). The new form allows the taxpayer the ability to compute the required Alabama quarterly installments using the optional federal annualization method and the optional federal adjusted seasonal method. See the instructions for Form 2220AL, Underpayment of Estimated Tax, for additional information.

**Captive Real Estate Investment Trusts (Captive REITS).** Captive REITS are defined in Section 40-18-1, **Code of Alabama, 1975**. When filing an Alabama Form 20C return, Captive REITS are required to add to income the amount of the Dividends Paid Deduction. See the instructions for Line 7, Schedule A; Alabama Act Number 2008-543; and, Section 40-18-35, **Code of Alabama, 1975**.

**Decoupling from the Federal Economic Stimulus Act of 2008.** Act Number 2008-549, passed by the Alabama Legislature during the first 2008 Special Session, decoupled Alabama income tax laws from the bonus depreciation and the additional Section 179 expense provisions of the federal Economic Stimulus Act of 2008. The amount of bonus depreciation and the additional Section 179 expense deduction claimed on the federal return (as allowed by the federal Economic Stimulus Act of 2008) must be added back to Federal Taxable Income on Schedule A of the Alabama Form 20C return. See the instructions for Line 4, Schedule A.

**Automatic Six-month Extension to File the Form 20C Return.** An automatic extension of six months has been granted to file the Alabama Form 20C Return, but the full amount of the tax due for a tax year is due, in full, by the original due date of the return. If the total of the estimated tax payments made for a tax year is less than the amount of tax due for the tax year, then an automatic extension payment in the amount of the tax deficiency is due by the original due date of the return for the tax year.

## General Information For C Corporations

### Corporations Subject To Income Tax:

Sections 40-18-2 and 40-18-31, **Code of Alabama 1975**, impose an income tax on every corporation doing business in Alabama or deriving income from sources within Alabama, including income from property located in Alabama and on every corporation licensed or qualified to transact business in Alabama except for those corporations specifically exempted by §40-18-32.

### Filing Requirements:

Every corporation, joint stock company, or association subject to income tax under Title 40, **Code of Alabama 1975**, is required by §40-18-39 to file a return with the Alabama Department of Revenue for each taxable period stating gross income and allowable deductions and credits. Penalties will be added for failure to timely file, failure to timely pay, or fraudulent filing. The Commissioner of Revenue is authorized to distribute, apportion or allocate income and deductions of related taxpayers to clearly reflect the income of the entities. See §40-18-35(b)(5).

### Consolidated Filing:

Please refer to our Web site at [www.revenue.alabama.gov](http://www.revenue.alabama.gov) for instructions on filing a Consolidated Corporate Income Tax Return, **Form 20C-C**.

### When To File:

**ORIGINAL DUE DATE.** The return for calendar year 2008 is due on or before March 15, 2009. For fiscal year or short-year taxpayers, the return is due on or before the 15th day of the 3rd month following the close of the tax period. If the due date falls on a Saturday, Sunday, or state holiday, the return will be due the following business day.

### Which Form To Use:

**FORM 20C.** Corporations must file Form 20C, Corporation Income Tax Return, unless (1) a valid election is in effect to be an S corporation under 26 U.S.C. §1362, (2) a valid election is in effect to be a qualified subchapter S subsidiary under 26 U.S.C. §1361(b)(3) and all of its stock is owned by an Alabama S corporation, or (3) the corporation has exempt status under §40-18-25(e), 40-18-25(f), or 40-18-32 and the corporation has no unrelated business taxable income.

**NOTE: Payments of \$750 or more are required to be made electronically. However, any business income tax payment mailed into the Department must be remitted with Form BIT-V.**

**FORM 20C-C Alabama Consolidated Corporate Income Tax Return.** The Form 20C-C must be filed by or on behalf of the members of the Alabama affiliated group in accordance with Alabama Code Section 40-18-39, when a Consolidated Filing election has been made pursuant to Code Section 40-18-39(c).

**FORM BIT-V.** Taxpayers with a business income tax payment of less than \$750 must complete Form BIT-V, Alabama Business Income Tax Voucher. Detach the completed voucher, and mail it along with your payment. Payments of \$750 or more must be remitted electronically.

**DO NOT** staple or otherwise attach your payment or Form BIT-V to your return or to each other. Instead, place the items loose in the envelope.

A valid Form BIT-V must accompany all tax payments that are not made electronically. To obtain Form BIT-V visit our Web site at [www.revenue.alabama.gov](http://www.revenue.alabama.gov).

### Estimate/Extension/Informational Requirements:

**ESTIMATED INCOME TAX PAYMENTS.** A corporation that has an Alabama income tax liability in excess of \$5,000 must pay estimated tax based on the current year's liability. The first payment is due by the 15th day of the 4th month of the taxable year. The 2nd, 3rd, and 4th payments are due by the 15th day of the 6th, 9th, and 12th months, respectively.

Estimated tax payments not paid by each quarterly due date will be subject to interest on the underpayment – determined by applying the underpayment rate established by 26 U.S.C. §6621 (as provided by Alabama Code Section 40-18-80.1) to the underpayment for the period of underpayment. In addition, the 10% penalty provided for in Alabama Code Section 40-2A-11 applies to estimated tax payments not paid by the quarterly due date.

The amount of required installments shall be 25 percent of the required annual payment. Required annual payment generally means the lesser of a) 100 percent of the tax shown on the return for taxable year, or b) 100 percent of the tax shown on the return of the corporation for the preceding taxable year. The prior period exception shall not apply if the preceding taxable year was not a taxable year of 12 months, or the corporation did not file a return for such preceding taxable year showing a liability for tax. Refer to Alabama Code Section 40-18-80.1.

Large corporations (taxable income of \$1,000,000 or more for taxable year during the testing period) are required to pay 100 percent of the current year tax. The prior year exception shall not apply in the case of a large corporation. The testing period is the 3 taxable years immediately preceding the taxable year involved. Also, taxable income shall be determined without regard to any net oper-

ating loss carried to the taxable year under Section 40-18-35.1. Refer to Alabama Code Section 40-18-80.1

**AUTOMATIC EXTENSION PAYMENTS.** An automatic extension of six months is granted to file the Alabama Corporation Income Tax Return, Form 20C. If estimated payments do not equal or exceed the amount of tax due for the period, the balance of the corporation's tax liability is due on or before the original due date of the return.

Automatic extension payments of \$750 or more must be made electronically. **DO NOT MAIL FORM BIT-V IF THE PAYMENT IS REMITTED ELECTRONICALLY.** To obtain Form BIT-V visit our Web site at [www.revenue.alabama.gov](http://www.revenue.alabama.gov).

Taxes not paid on or before the unextended due date will be subject to interest until paid at the rate provided in §40-1-44, **Code of Alabama 1975**, and all applicable penalties.

Returns or payments bearing a U.S. Postal Service cancellation no later than midnight of the due date (with extensions) will be considered timely filed.

**CIVIL PENALTIES.** Section 40-2A-11 provides additional penalties for (1) failure to timely file, (2) failure to timely pay, (3) underpayment due to negligence, and (4) underpayment due to fraud. These penalties may be assessed in addition to the amounts provided by §40-18-80.1.

### How To File:

For this return to be considered complete and properly filed, a copy of the appropriate federal return (Form 1120, 1120A, 1120F, 1120H, 990T, etc.) must be attached. Failure to attach the complete federal return with the necessary supporting schedules (such as Schedule D, Form 4797 and spreadsheet of income statements for all corporations included in the Federal Consolidated Return) may result in the imposition of delinquent penalties. It is not necessary to include itemized depreciation schedules with the return if the information is maintained with the company records and is available upon request.

Filing a consolidated return is not permitted unless a valid election under the provisions of §40-18-39 is in place. An Alabama real estate investment trust (REIT) is not required to file a consolidated election. Alabama law mirrors federal treatment for qualified REIT subsidiaries and their parent/owner. Please see our Web site at [www.revenue.alabama.gov](http://www.revenue.alabama.gov), for instructions for filing a Consolidated Corporate Income Tax Return.

If this corporation is a member of an affiliated group which files a consolidated federal return, additional schedules will be required. See "Other Information" on page 4 of the return for these filing requirements.

### Period Covered:

File the 2008 return for calendar year 2008 and for fiscal years or short-years that begin in 2008. Mark in the appropriate box at the top of the form for a fiscal year or short-year.

### Signature:

The return must be signed by an authorized officer of the corporation. If the property or business is being operated by a receiver trustee in bankruptcy or an assignee, such person shall sign for the corporation. Enter the date signed and the title of the person whose signature is affixed. If the return is prepared by anyone other than an employee of the taxpayer, enter the signature and identification information of the preparer.

### Where To File/Payment of Tax:

The total amount of the corporation's income tax liability for the period is due on or before the unextended due date of the return. If the return is to be filed under extension, any liability due should be remitted no later than the original due date of the return. Payments of \$750 or more must be made electronically. Payments less than \$750, must be remitted with Form BIT-V. **DO NOT MAIL FORM BIT-V IF THE PAYMENT IS REMITTED ELECTRONICALLY.**

**ELECTRONIC PAYMENT.** Section 41-1-20 requires electronic payments for all single business tax payments of \$750 or more. Substantial penalties will be assessed for noncompliance.

Taxpayers making e-payments via ACH Debit must have a Sign On ID and Access Code to login to the Alabama Department of Revenue (ADOR) Paperless Filing & Payment System. Credit users should visit our Web site at [www.revenue.alabama.gov/eservices.htm](http://www.revenue.alabama.gov/eservices.htm) for additional information.

**Electronic Payment Options.** The Department will accept electronic check

(e-check) and credit card payments for corporate income tax through Official Payments Corporation on the internet. To make a payment by e-check go to [www.officialpayments.com/echeck](http://www.officialpayments.com/echeck). There is no fee for this service. To make a payment by credit card go to [www.officialpayments.com](http://www.officialpayments.com). There is a convenience fee for this service. The fee is based on the amount of the tax payment and is paid directly to Official Payments Corporation.

Make check or money order payable to:

#### Alabama Department of Revenue

Write the corporation's federal employer identification number, the income tax form number or type of payment (Form 20C, Form 20C-C, automatic extension payment, estimated tax payment), and the tax year end on the check. Remit with Form BIT-V.

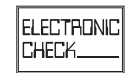
Tax due and not paid on or before the due date will be subject to a failure to timely pay penalty of 1% per month, up to 25%, and will accrue interest at the rate provided in §40-1-44.

Mail returns with payments and payment vouchers to:

Alabama Department of Revenue  
Individual and Corporate Tax Division  
Corporate Income Tax  
P.O. Box 327435  
Montgomery, AL 36132-7435  
Telephone (334) 242-1200

Mail non-payment and refund returns to:

Alabama Department of Revenue  
Individual and Corporate Tax Division  
Corporate Income Tax  
P.O. Box 327430  
Montgomery, AL 36132-7430  
Telephone (334) 242-1200



### To Pay by Credit Card\* or Electronic Check

Visit [www.revenue.alabama.gov](http://www.revenue.alabama.gov)

Click on E Services then Payment

For credit card payments by phone

Call 1-800-2PAY-TAX<sup>SM</sup>

(Use Jurisdiction Code 1101)

\*Official Payments, the service provider, charges a fee for this service.

### Specific Instructions

At the top, left-hand corner of page 1 check all applicable boxes if filing an initial, final, amended return, or address change.

At the top, right-hand corner of page 1 check the appropriate box indicating a calendar-year, fiscal-year, or short-year return. Fill in the blanks indicating the beginning and ending dates of the tax period if the return is for a fiscal year or a short year.

If this corporation is included in a consolidated federal income tax return, check the block and enter the name and federal employer identification number of the common parent corporation.

Check the appropriate filing status. **ONLY ONE BOX can be checked for the corporation's filing status.** Filing status 3, Percentage of Sales, is available as an option only to taxpayers whose only activities within Alabama consist of sales and do not include owning or renting real estate or tangible personal property and whose gross Alabama sales are not in excess of \$100,000. Use Schedule D-2 to compute tax. Filing status 4, Separate (Direct) Accounting, should only be used by taxpayers that have received prior permission from the Alabama Commissioner of Revenue. Filing status 5, Proforma return, is not an available option for taxpayers

who do not have a valid election to file a consolidated Alabama return. Please see our Web site at [www.revenue.alabama.gov](http://www.revenue.alabama.gov) for instructions on filing a Consolidated Corporate Income Tax Return.

In the top, center block of page 1 enter the corporation's federal business code number, its federal employer identification number (FEIN), and its name and mailing address (with complete zip code). Below the address enter the state of incorporation, date of incorporation, the date the corporation qualified to do business in Alabama, and the nature of business being conducted in Alabama.

Check the appropriate box to indicate the following:

- Final IRS change and notification is attached.
- Federal Form 1120-REIT was filed.

• Alabama Form 2220AL (which is used to compute underpayment of estimated taxes based on an allowable federal method) is attached.

BE SURE TO FILL OUT ALL APPLICABLE LINES ON PAGE 1 even if detailed schedules are attached. Failure to properly complete the return may result in delinquent penalties.

**LINE 1.** Enter the amount of the corporation's federal taxable income or (loss) from the corporation's federal income tax return. REITs should enter the Real Estate Investment Trust Taxable Income from the federal 1120-REIT return. Regulated Investment Companies (RICs) should enter the Investment Company Taxable Income from the federal 1120-RIC return. Tax exempt entities should enter the Unrelated Business Taxable Income from the federal 990-T return.

**LINE 2.** Enter the amount of the net operating loss deduction claimed by the corporation on the federal income tax return.

**LINE 3.** Enter the net amount of reconciliation adjustments from line 25, Schedule A, on page 2. Enclose the amount on line 3 in parentheses if net reconciliation deductions exceed additions.

**LINE 5.** Enter the amount shown in line 2, Column E, Schedule C, page 3. Enclose net nonbusiness income in parentheses.

Net nonbusiness income is a negative amount in computing total apportionable income on line 6. Net nonbusiness expense or loss is a positive amount in computing total apportionable income on line 6.

**LINE 6.** Enter the sum of lines 4 and 5. Special attention should be paid to whether the amounts on lines 4 and 5 are positive or negative. Negative amounts must be netted against positive amounts.

**LINE 9.** Enter the amount shown on line 2, Column F, Schedule C, page 3. Enclose net nonbusiness expense or (loss) in parentheses.

Net nonbusiness income allocated to Alabama is a positive amount in computing Alabama income before federal income tax deduction. Net nonbusiness expense or (loss) allocated to Alabama is a negative amount in computing Alabama income before federal income tax deduction.

**LINE 13.** Enter the amount of net operating loss (not to exceed line 12, Alabama Income before net operating loss) carried forward from taxable years beginning after December 31, 1991. **Complete Schedule B** showing the amount of net operating loss incurred for each tax period beginning January 1, 1992 or later **and** the amount of such loss absorbed in each subsequent taxable period. Schedule B must be completed for the return to be considered complete. **Copies of the Alabama corporate income tax returns (page 1 only) for all applicable years more than six years old must be attached, including tax periods where the net operating losses were utilized.**

A net operating loss is the excess of allowable deductions over the gross income of a corporation during a taxable year. A net operating loss is applied to the first taxable year to which it may be carried. A loss incurred in a taxable year beginning after December 31, 1984 may be carried forward 15 consecutive years.

**Corporations may not carry back a net operating loss to offset Alabama income in prior years.**

**LINE 15. ALABAMA INCOME TAX** (Alabama income tax rate is 6.5%) – (multiply line 14 by 6.5%)

**LINE 16. TAX PAYMENTS, CREDITS, AND DEFERRAL**

**LINE 16a.** Enter the amount of tax overpayments carried over from last year.

**LINE 16b.** Enter the amount of estimated tax payments.

**LINE 16c.** Enter the amount of any composite payments made on this line. Make sure to include the Name and FEIN of the entity making the payment in the space provided. (Attach a schedule of payments if multiple payments were made.)

**LINE 16d.** Enter the amount of any automatic extension payments made for the tax year.

**LINE 16e.** This line is only to be used if a taxpayer is filing an AMENDED RETURN. The amount shown should be any payments made with the original return and/or any payments made because of adjustments to the return by the Alabama Department of Revenue.

**LINE 16f.** Credits/Exemptions. Refer to instructions for Schedule F.

**LINE 16g.** The increase in tax due to the LIFO reserve recapture is payable in 4 equal installments. The first installment is due no later than the due date (without extension) for filing the return for the last taxable year before the corporation became an S corporation. The 3 succeeding installments are due no later than the due date (without extension) for the succeeding 3 years.

To calculate the LIFO tax deferral, multiply the amount of LIFO reserve recapture included in the Federal taxable income by 6.5%. Multiply the total by 75%. Enter the result on line 16g not to exceed line 15c on page one. Multistate taxpayers should calculate the LIFO tax deferral by multiplying the result from above by the apportionment percentage on page 1, line 7.

**LINE 17. REDUCTION/APPLICATIONS OF OVERPAYMENTS**

**LINE 17a.** Enter the amount of the overpayment to be applied to next year's estimated tax.

**LINE 17b.** Enter the amount of the overpayment elected to be contributed to the Penny Trust Fund.

**Once the election is made to apply an overpayment to the next year's estimated tax and/or contribute to the Penny Trust Fund, the election may not be changed.** The amount of overpayment applied to the estimated tax for the following year will not be refunded until after the following year's tax return has been filed. Contributions to the Penny Trust Fund are designated for the promotion of public schools and public health.

**LINE 17c.** If the return is not filed on or before the due date (with extensions), enter a delinquent penalty of 10% of the tax due or \$50, whichever is greater.

Taxes not paid by the original due date will be subject to a late payment penalty of 1% per month for each month or fraction thereof that the tax remains unpaid, up to 25%, as provided in §40-2A-11.

Estimated tax payments not paid by each quarterly due date will be subject to interest on the underpayment – determined by applying the underpayment rate established by 26 U.S.C. §6621 (as provided by Alabama Code Section 40-18-80.1) to the underpayment for the period of underpayment. In addition, the 10% penalty provided for in Alabama Code Section 40-2A-11 applies to estimated tax payments not paid by the quarterly due date.

**LINE 17d.** Enter the amount of interest due on the balance of tax due, computed from the due date (without extensions) of this return to the date paid. The Alabama interest rate is the same as provided in 26 U.S.C. §6621.

**LINE 18.** Enter the amount of tax due or the amount to be refunded. Refunds should be entered as a negative or in parenthesis.

**ELECTRONIC PAYMENT INDICATOR.** Check the box if the payment shown due on this return was made electronically. Payments of \$750 or more must be made electronically.

## Instructions For Schedule A

The Alabama income tax law is similar, but not identical, to the federal income tax law. It is necessary to make certain adjustments to reconcile federal taxable income before federal net operating loss to total taxable income from all locations computed in accordance with Alabama income tax law and rules before adjustments for federal income tax and net operating loss carryforward. Use Schedule A to itemize these reconciliation adjustments.

*NOTE: Sections 40-18-33, 40-18-34, and 40-18-35 define Alabama corporate taxable income, and the definition was revised for taxable years beginning on or after January 1, 2001.*

**MULTISTATE CORPORATIONS MUST NOT USE SCHEDULE A TO MAKE ADJUSTMENTS FOR NONAPPORTIONABLE (NONBUSINESS) ITEMS. Adjustments for these items must be made on Schedule C.**

## Additions To Federal Taxable Income:

**LINE 1.** Enter the amounts of state and/or local taxes based on net income or measured by net income which have been deducted on the federal return.

**LINE 2.** Enter the amount of interest earned which is exempt from federal taxation. This includes state and local municipal bonds.

**LINE 3.** Enter the amount of dividend income earned from corporations of



which the taxpayer owns less than 20% of the stock (by vote and value) to the extent the dividends are deducted in computing taxable income for federal income tax purposes.

**LINE 4a.** Enter any Federal deductions taken on pollution control items which were previously deducted on an Alabama income tax return (for equipment placed in service during tax years beginning prior to 1/1/2001 only).

**LINE 4b.** Bonus Depreciation Allowed by the Economic Stimulus Act of 2008. Act Number 2008-549, passed by the Alabama Legislature during the first 2008 Special Session, decoupled Alabama income tax laws from the bonus depreciation and additional Section 179 provisions of the federal Economic Stimulus Act of 2008. Alabama income tax laws will continue to be tied to the federal depreciation rules without consideration of the changes implemented by the Economic Stimulus Act of 2008. For purposes of these instructions, Alabama-allowed depreciation means depreciation computed in accordance with the federal depreciation rules without consideration of the changes made to Section 168 by the federal Economic Stimulus Act of 2008.

Enter in line 4b: the amount of bonus depreciation claimed on the Federal 1120 return (as allowed by the federal Economic Stimulus Act of 2008); plus the regular MACRS deductions for the same qualifying property; reduced by the amount of Alabama-allowed depreciation for the same qualifying property. Attach a computation of the amount entered on line 4b – identifying each piece of property qualifying for the federal bonus depreciation.

**LINE 4c.** Additional Section 179 Expense Deduction Allowed by the federal Economic Stimulus Act of 2008. Act Number 2008-549, passed by the Alabama Legislature during the first 2008 Special Session, decoupled Alabama income tax laws from the bonus depreciation and additional Section 179 provisions of the federal Economic Stimulus Act of 2008. Alabama income tax laws will continue to be tied to the federal depreciation rules without consideration of the changes implemented by the Economic Stimulus Act of 2008. For purposes of these instructions, Alabama-allowed depreciation means depreciation computed in accordance with the federal depreciation rules without consideration of the changes made to Section 168 by the federal Economic Stimulus Act of 2008.

Enter on line 4c the additional amount of Section 179 expense deduction claimed on the Federal 1120 return, as allowed by the federal Economic Stimulus Act of 2008, reduced by the amount of Alabama-allowed depreciation for the qualifying property. Attach the computation of the amount entered on line 4c – identifying each piece of property qualifying for the additional Section 179 provisions of the federal Economic Stimulus Act of 2008.

**LINE 5.** Real estate investment trusts (REIT) enter the net income from foreclosure property from Federal Form 1120-REIT.

**LINE 6.** Add back otherwise deductible related member interest or intangible expenses and costs except to the extent the corporation establishes that the expense satisfies an exception in §40-18-35(b) and Alabama Regulation 810-3-35-.02. **(Schedule AB must be attached.)**

**LINE 6a.** Enter the Total Intangible/Interest Expenses Paid to All Related Members from line 12 of the Alabama Schedule AB (Add Back Form).

**LINE 6b.** Enter the Total Exempt Amount from line 13 of the Alabama Schedule AB (Add Back Form).

**LINE 7. Captive REIT – Dividend Paid Deduction.** Captive REITs are required by Section 40-18-35, **Code of Alabama 1975**, to add the federal Dividends Paid Deduction back to the federal taxable income in computing Alabama taxable income.

A Captive REIT is defined in Section 40-18-1, **Code of Alabama 1975**, as: "Any REIT whose shares or certificates of beneficial interest are not regularly traded on an established securities market and are owned or controlled, at any time during the last half of the tax year, by an association taxable as a corporation that is not exempt from tax under 26 U.S.C. §501(a), and is not any of the following: (i) a REIT; (ii) a listed Australian property trust (including any trust that a listed Australian property trust owns or controls, directly or indirectly, seventy-five percent or more of the voting power or value of the beneficial interests or shares of such trust); or (iii) any qualified foreign entity. The term "Captive REIT" shall not include any REIT at least 50 percent of the shares of which (by vote or value) are owned or controlled, directly or indirectly, at any time during the last half of the tax year, by a financial institution, as such term is defined in Chapter 16. For purposes of this definition, own or control means to own or control directly, indirectly, beneficially, or constructively more than fifty percent (50%) of the voting power or value of an entity. The attribution rules of 26 U.S.C. §318, as modified by 26 U.S.C. §856(d)(5),

apply in determining ownership and control."

**LINE 8.** Other items required to be added back to federal taxable income to arrive at Alabama taxable income should be entered on this line. A brief description should be written in if an amount is reported on line 8.

If any items were deducted in computing federal taxable income were also previously deducted on an Alabama corporate income tax return for taxable years beginning prior to January 1, 2001, attach a schedule which details each and include in the total on line 8, of page 2, Schedule A.

## Deductions From Federal Taxable Income:

**LINE 10.** Enter the amount of refunds of state and/or local taxes on net income which have been refunded and included in federal income (only if not netted in line 1 above).

**LINE 11.** Enter the amount of interest income earned on obligations of the U.S. government. Do not include interest on federal tax refunds or interest income from FNMA, GNMA, Federal Home Loan Mortgage Corporation, or World Bank, since instruments issued by these organizations are not direct obligations of the U.S. government.

**LINE 12.** Enter the amount of interest income earned on obligations of the State of Alabama or any of its subdivisions or instrumentalities to extent included in the Federal return.

**LINE 13.** Enter the amount of interest income earned on obligations issued prior to December 31, 1994 by Alabama or any of its subdivisions or instrumentalities pursuant to §40-9B-7, to the extent included in the Federal return. The interest income relates to obligations issued by State of Alabama Public Authorities or Public Industrial Authorities, for "Private Use Property" only.

**LINE 14.** Enter the amount of aid or assistance provided to the Alabama State Industrial Development Authority pursuant to §41-10-44.8(d).

**LINE 15.** Enter expenses not deductible on the federal income tax return due to an election to claim a federal tax credit, i.e. jobs credit, etc.

**LINE 16.** Enter dividends described in 26 U.S.C. §78 received from corporations in which taxpayer owns more than 20% of stock by vote or value.

**LINE 17.** Enter dividends, including those described in 26 U.S.C. §951, from non-U.S. corporations to extent dividend income would be deductible under 26 U.S.C. §243 if received from a U.S. corporation. Taxpayer must own more than 20% of these payer corporations by vote or value.

**LINE 18.** Enter dividends from foreign sales corporations as defined in 26 U.S.C. §922.

**LINE 19.** Enter interest portion of rent paid under lease agreements *entered into prior to December 31, 1994* relating to obligations of this state and its subdivisions/instrumentalities to the extent such obligations were issued solely to pay the cost of assets described pursuant to §40-9B-7(c) through (e).

**LINE 20.** Enter the amount of depletion on oil and gas wells, but only to the extent the depletion allowed by §40-18-16 exceeds the amount allowed by federal law.

**LINES 21, 22, and 23.** List any transitional items of income included in federal taxable income that was previously reported on an Alabama corporate income tax return for taxable years beginning prior to January 1, 2001.

**LINE 24.** Enter the sum of lines 10 through 23.

**LINE 25.** Subtract line 24 from line 9 and enter the result on line 25. If line 24 is larger than line 9 enclose the amount on line 25 in parentheses. Carry the amount on line 25 to page 1, line 3.

## Instructions For Schedule B

For taxable years beginning after December 31, 1984, a net operating loss may be carried forward for a maximum of 15 years. There is no provision in Alabama tax law that allows corporations to carry a net operating loss back to prior taxable years.

**NOTE: Failure to properly complete Schedule B will result in an automatic denial of any net operating loss claimed.**

Schedule B must be completed in order to claim the net operating loss deduction. **Copies of the Alabama corporate income tax returns (page 1 only) for all applicable years more than six years old must be attached, including tax periods where the net operating losses were utilized.**

**Note: Please begin the net operating loss schedule with the oldest loss year first, ending with the most current loss year. Please list loss years only.**

***Tax years that utilize net operating losses should not be listed. The utilized losses are shown in column 3.***

**Column 1.** Enter the tax year end (MM/DD/YYYY) in which the net operating loss was generated.

**Column 2.** Enter the amount of the net operating loss incurred by the corporation for the tax period in Column 1.

**Column 3.** Enter the amount of the net operating loss utilized in period years for the loss listed in Column 2.

**Column 4.** Enter the amount of the net operating loss to be utilized in the current tax period, not to exceed the remaining balance for this loss period.

**Column 5.** Enter the remaining balance of the unused net operating loss for this loss period. (Column 2 – Column 3 – Column 4 = Column 5.)

The Alabama net operating loss deduction is limited to net operating losses incurred by a corporation which did business in Alabama and filed Alabama corporate income tax returns in prior taxable years.

## Instructions For Schedule C

Enter on Schedule C all items of nonbusiness income, nonbusiness loss, and nonbusiness expense. These items are excluded from apportionable income and are allocated either to Alabama or to another state. See Alabama Department of Revenue Administrative Rule 810-27-1-4-.01 for a discussion of the classification of income and expense into business and nonbusiness categories and the assignment of nonbusiness items to specific jurisdictions.

Beside the line number in Schedule C, enter the item description. In Column A, enter the total amount of gross income or loss to be excluded from apportionable income. In Column B enter the amount of gross income or loss allocable to Alabama.

Enter total nonbusiness expense in Column C and any allocable to Alabama in Column D. Nonbusiness expense may exceed nonbusiness income and, in fact, may be present when there is no nonbusiness income. Expenses which are not directly identifiable as business or nonbusiness must be prorated. See Rule 810-27-1-4-.01. The method for prorating interest expense is to multiply total interest expense deducted on the federal return by a fraction, the numerator of which is the average amount invested in nonbusiness assets at cost and the denominator of which is the average amount invested in total assets at cost. Investments originally acquired by means of stock for stock swaps may be eliminated from both the numerator and the denominator of the nonbusiness interest expense proration factor.

Subtract Column C from Column A, and enter the remainder in Column E. Subtract Column D from Column B, and enter the remainder in Column F.

Add the amounts in Columns E and F, and enter the totals on line 2. Carry the total of Column E to page 1, line 5. Carry the total of Column F to page 1, line 9.

## Instructions For Schedule D-1

The corporation's business activity in Alabama is represented by the apportionment percentage. Except for special cases provided for in Rule 810-27-1-4-.18, the apportionment factor consists of the average of three factors: property, payroll, and sales. See Rule 810-27-1-4-.09 through Rule 810-27-1-4-.18 for detailed instructions regarding the items to be included in the numerator and the denominator of each of these factors.

### Property Factor:

In the appropriate columns, enter the amounts (at cost, unless stated otherwise) of property available for use in the production of business (apportionable) income.

**LINE 1.** Inventories.

**LINE 2.** Land.

**LINE 3.** Furniture and fixtures.

**LINE 4.** Machinery and equipment.

**LINE 5.** Buildings and leasehold improvements.

**LINE 6.** Property financed through industrial development boards or by industrial revenue bonds issued by municipalities. **All Industrial Development Board property utilized by the taxpayer will be included at its original cost.**

**Note:** All Industrial Development Board property must be listed separately on Schedule D-1 and not included in the regular property listed elsewhere. If the property is not listed separately here, it will be assumed that it was not listed and your corporation will be billed for additional amounts due

including tax, penalties and interest due.

**LINE 7.** Government Property. **All government property (whether local, state, or federal), when made available for use by the taxpayer, will be reported at its current fair market value.**

**LINE 8.** Any other real or tangible personal property not listed above used in production of business income.

**LINE 9.** Less Construction in progress (if included in the amounts on lines 1 through 8).

**LINE 10.** Enter the totals of lines 1 through 9.

**LINE 11.** Enter the average (beginning of year plus end of year values divided by 2) value of property in Alabama and Everywhere. See Rule 810-27-1-4-.12 for rules regarding computations other than beginning and end of year values.

**LINE 12.** In the Beginning of Year columns, enter the amount of expense for the rental of real or tangible personal property used in the production of business income in Alabama and Everywhere. Annualize for short-period returns. Multiply the annual rent expense by 8, and enter the result in the End of Year column. This is the capitalized rental value.

**LINE 13a.** Add the amounts on lines 11 and 12 in the End of Year column for Alabama.

**LINE 13b.** Add the amounts on lines 11 and 12 in the End of Year column for Everywhere.

**LINE 14.** Divide the amount on line 13a by the amount on line 13b, and enter the percentage on line 14. This is the ALABAMA PROPERTY FACTOR.

### Payroll Factor:

**LINE 15a.** Enter the amount of wages and other compensation paid to employees for the production of business income in Alabama.

**LINE 15b.** Enter the amount of wages and other compensation paid to employees for the production of business income Everywhere. (Include officers' salaries.)

**LINE 15c.** Divide the amount on line 15a by the amount on line 15b, and enter the percentage on line 15c. This is the ALABAMA PAYROLL FACTOR.

### Sales Factor:

**LINE 16.** Enter gross receipts from Alabama destination sales except sales to the U.S. government. This includes total gross receipts from sales of tangible property shipped to Alabama from locations both within and without Alabama.

**LINE 17.** Enter the amount of sales shipped from an Alabama origin to any state or foreign country where this corporation is not taxable. Also enter total sales to the U.S. government shipped from Alabama.

**LINE 18.** In the Alabama column, enter the total of lines 16 and 17. In the Everywhere column enter total sales for everywhere. If this amount does not correspond with line 1 of Federal Form 1120, attach an explanation and reconciliation.

**LINE 19.** Enter in the appropriate columns the gross business dividends, if any. (Note that any dividends entered here will be included in apportionable income on page 1.)

**LINE 20.** Enter in the appropriate columns the gross business interest income.

**LINE 21.** Enter in the appropriate columns the gross business income from rents.

**LINE 22.** Enter in the appropriate columns the gross business income from royalties.

**LINE 23.** Enter in the appropriate columns the gross receipts from the sale or disposition of assets used in the business. See Reg. 810-27-1-4-.15 for exclusion of amounts which would distort the factor.

**LINE 24.** Enter in the appropriate columns the amounts of other business gross receipts, and identify the nature of such receipts and their location in the federal return.

**LINE 25a.** Total the Alabama column for lines 18 through 24.

**LINE 25b.** Total the Everywhere columns for lines 18 through 24.

**LINE 25c.** Divide the amount on line 25a by the amount on line 25b, and enter the percentage on line 25c. This is the ALABAMA SALES FACTOR.

**LINE 26.** Add lines 14, 15c, and 25c. Divide by 3. This is the ALABAMA AP-PORTIONMENT PERCENTAGE. Enter here and on line 7, page 1. (If any factor is not utilized in the production of income, it shall be eliminated and the denominator reduced accordingly.)

## Instructions for Schedule D-2

This schedule should be used only by taxpayers whose only activity in Alabama consists of sales and does not include owning or renting real estate or tangible personal property, and whose gross Alabama sales does not exceed \$100,000.00.

The tax liability is based on a percentage, .25%, of Alabama gross sales. See §40-18-23 for further information.

**LINE 1.** Enter gross receipts from Alabama destination sales except sales to the U.S. government. This includes total gross receipts from sales of tangible property shipped to Alabama from locations within and without Alabama.

**LINE 2.** Enter the amount of sales shipped from an Alabama origin to any state or foreign country where this corporation is not taxable. Also enter total sales to the U.S. government shipped from Alabama.

**LINE 3.** In the Alabama column, enter the total of lines 1 and 2. In the Everywhere column, enter total sales for everywhere. If this amount does not correspond with line 1 of Federal Form 1120, attach an explanation and reconciliation.

## Instructions for Schedule E

This schedule should be used to compute the amount of the corporation's federal income tax deduction allowed for Alabama corporate income tax purposes.

**Corporations filing a consolidated federal return must complete lines 1-12 of this schedule. Corporations filing separate company federal returns should complete lines 6-12 of this schedule only. Lines 1-5 are used to compute the amount of the consolidated federal tax liability attributable to the company filing Form 20C.**

If the corporation is a member of an affiliated group which files a consolidated federal return, check the appropriate block to indicate the election made under 26 U.S.C. §1552. For taxpayers utilizing 1552(a)(1) and 1552(a)(2), provide a copy of the corporation's federal income tax workpapers showing the members of the consolidated federal group. For corporations using 1552(a)(1), the workpapers should include the member's share of federal taxable income (line 30 of Form 1120), **positive amounts only**. Losses should be entered as a \$0.00. For corporations using 1552(a)(2), the workpapers should include the member's federal income tax as computed utilizing the current year tax rates and taking into account any federal income tax credits attributable to each member of the federal group. The total (taxable income or federal income tax) from this workpaper should be the amount reported on Line 2 of this schedule.

**Taxpayers utilizing method 1552(a)(3) must attach a copy of the corporation's federal income tax deduction workpapers. Even if the taxpayer is filing as part of a consolidated federal return, taxpayers utilizing method 1552(a)(3) must skip to line 6. Lines 1-5 of this schedule do not apply to those taxpayers using methods 1552(a)(1) or 1552(a)(2).**

**LINE 1.** Enter the corporation's separate federal (taxable income/tax) from line 30 or 31 of the proforma 1120.

**LINE 2.** Enter the group's total positive federal (taxable income/tax) – See Reg. 810-3-35-.01(1)(b)3.

**LINE 3.** Divide the corporation's separate federal (taxable income/tax) as shown on line 1 by the group's total positive federal taxable (income/tax) as shown on line 2. Enter the result.

**LINE 4.** Enter the consolidated federal income tax (liability/payments).

**Accrual-basis taxpayers** should enter the amount of the corporation's consolidated federal income tax. The federal liability should correspond to Federal Form 1120, Schedule J.

**Cash-basis taxpayers** should enter the actual tax payment forwarded to the Internal Revenue Service during the tax period.

**Real estate investment trusts** should not include the tax imposed by IRC §857(b)(6) on prohibited transactions as part of the federal tax deduction.

**LINE 5.** Multiply the percentage from line 3 by the consolidated federal income tax (liability/payment) as shown on line 4. Enter the result.

**LINE 6.** Enter the taxpayer's federal income tax (or share of the consolidated federal income tax, if included in a consolidated return, as computed on line 1-5 above) – See Reg. 810-3-35-.01.

**Accrual-basis taxpayers** should enter the amount of the corporation's federal income tax. The federal liability should correspond to Federal Form 1120, Schedule J.

**Cash-basis taxpayers** should enter the actual tax payment forwarded

to the Internal Revenue Service during the tax period.

**Real estate investment trusts** should not include the tax imposed by IRC §857(b)(6) on prohibited transactions as part of the federal tax deduction.

**LINE 7.** Enter the amount of Alabama income from line 10, page 1.

**LINE 8.** Enter the amount of federal taxable income adjusted to Alabama basis from line 4, page 1.

**LINE 9.** If the amounts on line 7 and line 8 are greater than zero, divide the amount on line 7 by the amount on line 8. If the amounts on line 7 and/or line 8 are zero or less than zero, enter zero. This is the federal income tax ratio.

**LINE 10.** Multiply the amount of federal income tax attributed to this corporation as shown on line 6 by the federal income tax ratio as shown on line 9. Enter the result.

**LINE 11.** If a corporation takes a deduction for federal income tax on its Alabama return and in a later year all or a portion of the tax claimed as a deduction is refunded by the Internal Revenue Service, the taxpayer is required to recognize the refund on its Alabama return to the extent of the benefit received in the year the deduction was taken.

Cash-basis taxpayers recognize refunds in the year they are issued by the Internal Revenue Service. Accrual-basis taxpayers recognize refunds in the year in which the refund is accrued for financial accounting purposes. An accrual-basis taxpayer receiving a refund as a result of a carryback to prior-year federal return would accrue the refund in the year in which the final event which caused the carryback occurred.

Multistate taxpayers filing separate federal returns (not requiring allocation of the refund among members of a consolidation) should apportion the refund to Alabama using the following steps:

(1) If the total refund received or accrued results from a carryback to more than one previous year, identify each of the years to which the carryback is applied and designate the amount attributable to each year.

(2) Multiply the amount of refund attributable to each year by the same percentage used to apportion income to Alabama on that year's return as last reported or audited.

(3) Add the results obtained in Step 2 for all years.

(4) Enter the total on line 11.

A multi state taxpayer filing its federal return as a member of a consolidated group must apportion the refund to each member of the group at the same ratio that the tax deduction being refunded was originally apportioned. See Reg. 810-3-35-.01(1)(b)4.

After the amount of refund attributable to the separate corporation has been determined for each year, the four (4) steps provided above for corporations filing separate federal returns may be followed in determining the amount of federal income tax refund to be entered on line 11.

**LINE 12.** Subtract line 11 from line 10. If line 10 is larger than line 11, enter the net federal income tax deduction on line 12 and carry to line 11 of page 1.

If line 11 is larger than line 10, enter the net federal income tax refund on line 12 and carry to line 11 of page 1.

## Instructions for Schedule F

**LINE 1. Alabama Enterprise Zone Credit/Exemption:** Certain tax incentives are available to qualifying businesses which locate or expand within a designated enterprise zone. These tax incentives are available under the provisions of Section 41-23-24.

Business entities eligible for the tax credit must be approved by the Alabama Department of Economic and Community Affairs (ADECA) and must also receive certification annually from ADECA. Each corporation qualified for and receiving an Alabama Enterprise Zone Credit is required to complete and attach Schedule EZ and the certificate of Certification with the Form 20C return. If a C corporation is a member or partner of a pass-through entity that is eligible for the enterprise zone credit, the credit is distributed to each partner or member based on the percentage of ownership; Schedule EZ-K1 is required to be attached to the C corporation's Form 20C return.

Business entities eligible for the tax exemption must have entered into a contract with the Governor of Alabama and ADECA and must also receive certification annually from ADECA. A taxpayer must compute their income tax exemption under the provisions of their specific contract. The certificate of Certification and computations must be attached to Form 20C to claim exemption.



For additional information on the Alabama Enterprise Zone Credit/Exemption, contact ADECA at Technical Assistance Section, 401 Adams Avenue, P.O. Box 5690, Montgomery, AL 36103-5690, 334-242-5370. Questions pertaining to the application of the tax credit should be addressed to Alabama Department of Revenue, P.O. Box 327001, Montgomery, AL 36132-7001, 334-242-1175.

**Schedule EZ and certificates must be attached to claim the credit. Certificate and computations must be attached to claim exemption.**

**LINE 2. Employer Education Credit:** Sections 40-18-135 through 40-18-139 provide a tax credit to employers who provide approved basic skills education programs to Alabama resident employees. To qualify for the credit, (1) the program must have written approval from the Alabama Department of Education, (2) the employees shall have been continuously employed for at least 16 weeks for at least 24 hours per week, and (3) the employer cannot receive or require reimbursement or any form of remuneration for any cost of education. The credit is 20 percent of the actual costs limited to the employer's income tax liability. A copy of the document of approval along with a detailed schedule (including actual costs incurred, employee employment period) computing the credit should be provided. For further information, contact the Alabama Department of Postsecondary Education, Adult Education Program, Workplace Education Tax Credit, 401 Adams Avenue, Suite 170, P.O. Box 302130, Montgomery, AL 36130-2130, Attn: Joe Macaluso or the Alabama Department of Revenue, P.O. Box 327430, Montgomery, AL 36132-7430, at (334) 242-1200.

To help induce industrial and research facilities to locate in Alabama, Act 93-851 allows the Industrial Development Authority to grant certain tax incentives to companies proposing to construct approved projects in this state. See credits on lines 3 and 4.

**LINE 3. Income Tax Credit:** Section 40-18-35 provides a credit for the income tax owed on the income generated by or arising out of the project. The credit cannot exceed the lesser of (1) tax due, or (2) the amount paid pursuant to the financing agreement in the year for which tax is due, corresponding to debt service on the project obligations. This incentive may be reduced or suspended by the Industrial Development Authority if the company fails to achieve the anticipated level of capital investment or employment. Attachments to support credit should include certificate/document of approval, computation of income generated from project, support for amount paid, and computation of credit.

**LINE 4. Tax Increment Fund Payment Credit:** A credit is allowed for any payments into the fund with respect to corporate income tax due, for the year, on income generated by or arising from the project. Such credit cannot exceed the lesser of the amount of income tax due or the amount (exclusive of job development fees) paid into the tax increment funds. See §40-18-35.

The document of approval along with proof of payment(s) into the fund relative to corporate income tax and a detailed schedule computing income generated from the project is required.

For further information relating to credits, contact the Alabama Development Office, 401 Adams Avenue, Montgomery, AL 36130 at (334) 242-0400, or the Ala-

bama Department of Revenue, P.O. Box 327430, Montgomery, AL 36132-7430 at (334) 242-1200.

**LINE 5. Coal Credit:** Section 40-18-220 provides a credit against the Alabama income tax liability to every corporation that is doing business in Alabama as a producer of coal mined in Alabama. The credit is one dollar per ton of the increase in Alabama coal produced for the year over the Alabama coal produced in the prior year. A detailed schedule computing the coal tax credit should be attached to the return when claiming the credit. For further information, contact the Alabama Department of Revenue, P.O. Box 327430, Montgomery, AL 36132-7430 at (334) 242-1200.

**LINE 6. Capital Credit:** Sections 40-18-190 through 40-18-203 provide for a tax credit against Alabama income tax with respect to income generated by or arising out of a qualifying project undertaken by certain existing businesses and certain new businesses to be located in the state. A statement of intent to invest in a qualifying project must be filed prior to the qualifying project being placed in service and must be approved by the Alabama Department of Revenue prior to the project entity taking the credit. The credit allowable is up to 5 percent of the qualifying project's allowable capital costs for each of 20 years, limited to the tax liability generated by or arising out of the qualifying project, and is applied **after all deductions, exemptions and other credits have been taken.**

As the project entity, the C corporation is required to complete and attach Form AR with the Form 20C return to be eligible to receive the capital credit. If the C corporation is a member or partner of an investing company that has a qualifying project, the C corporation must complete and attach Form K-RCC with Form 20C. If a capital credit is claimed on Form 20C, the project number should be entered in the space provided on line 6.

For further information regarding the capital credit and the necessary forms to claim the capital credit, visit the Alabama Department of Revenue's Web site at [www.revenue.alabama.gov](http://www.revenue.alabama.gov) under the Tax Incentives page, or contact the Department at P.O. Box 327001, Montgomery, AL 36132-7001 or 334-242-1175.

**Capital Docks Credit:** Sections 40-18-240 through 40-18-250 provide for a tax credit against Alabama income tax liability with respect to income generated by or arising out of a qualifying project undertaken by certain existing businesses and certain new businesses to be located in the state. Written approval by the Governor, Finance Director, and Alabama State Port Authority is required, and a written statement of intent must be filed with the Alabama Department of Revenue prior to the project being placed in service. For further information regarding the capital docks credit, contact the Alabama Department of Revenue at P.O. Box 327001, Montgomery, AL 36132-7001 or 334-242-1175.

Forms AR and K-RCC, if applicable, should be attached to claim the credit. If a credit is claimed, the project number should be entered in the space provided on line 6.

**LINE 7.** Enter the sum of lines 1 through 7. Carry the amount to line 16f, page 1. **The total credits and exemption cannot exceed the tax due.**